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Shipping

REPORT OF THE EXPERT GROUP ON SHIPPING POLICY

convened by the Secretary-General of UNCTAD

at the Palais des Nations, Geneva
on 18 and 19 May 1992

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Letter of transmittal to the Secretary-General of UNCTAD

Sir,

We have the honour to submit herewith our report of the Expert Group on Shipping Policy.

The experts invited by you, who attended in their personal capacities, held their session at the Palais des Nations, Geneva, on 18 and 19 May 1992. The Group unanimously elected Mr. P.M. Abraham as its Chairman.

The session was attended by 12 experts representing Governments, private industry and academic institutions.

In accordance with our mandate, and on the basis of the document prepared by the secretariat, we examined recent and future developments in the field of shipping, as well as the main problems encountered by developing countries as users and suppliers of shipping services. Based on the document before us, as well as the discussions held over the two days, we have developed a set of recommendations for action at the national and international level which are contained in the attached report.

We wish to express our appreciation to the UNCTAD secretariat for the assistance rendered during our deliberations and in the preparation of our report.

We submit this report to you for consideration and for action as you consider appropriate.

Respectfully yours,

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Chapter I

Organizational matters

1. A Group of Experts on Shipping Policy was convened by the Secretary-General of UNCTAD. The terms of reference and agenda are annexed to this report.

2. At its first meeting, the Group elected Mr. P.M. Abraham, Permanent Secretary, Ministry of Surface Transport, India, as Chairman.

Chapter II

Structural changes in the maritime sector and necessary measures to promote the participation of developing countries in world shipping

3. The Group had before it for consideration a draft report prepared by the secretariat entitled "Industry and Policy Developments in World Shipping and their Impact on Developing Countries".

4. In his opening statement, the Director of the Shipping Division of UNCTAD drew the Group's attention to current developments in intergovernmental deliberations on shipping matters being conducted under the auspices of GATT and within UNCTAD. He summarized the agreement reached at the recent UNCTAD VIII and its effect on future international relations in the field of shipping. He furthermore drew attention to important technological and organizational developments now underway in the shipping industry and the resulting technology gap between shipping operations of developed and developing countries. The deliberations of the Group would have to take these developments into account and the Group was expected to propose action to be taken at the national and international level aimed at enhancing the development of competitive shipping services in developing countries and their continued participation in world shipping. He stressed that recommendations by the Group should be market-oriented and reflect the growing role of the private sector in the operations of the industry.

5. Using the UNCTAD document entitled "Industry and Policy Developments in World Shipping and their Impact on Developing Countries" (TD/B/CN.4/5) as a basis for discussion, the Group first commented on the good quality of the document and then proceeded to examine individual chapters. Starting with Chapter I, World Shipping Developments and Perspectives (paragraphs 1 to 62), the Group voiced its agreement with much of the factual material presented in the report. However, the Group suggested some revision for incorporation into a revised UNCTAD document.

6. With regard to general developments, some of the experts stressed the need for commercial criteria reflecting economic factor endowments to be the basis for developing countries to expand participation in world shipping, emphasizing that the objective of transportation services should be to facilitate trade. Moreover, further expansion by developing countries into shipping would have to recognize the new realities in the global economy. These were, *inter alia*, a growing trend towards liberalization of trade policies, privatization of public sector companies, greatly increasing capital and technological requirements, readjustments in conference systems, ageing of the world bulk fleets, EDI/equipment control systems for container operations and the essential need to upgrade seagoing and shore-side management skills.

7. With regard to developments in bulk shipping, the Group said that it deplored the adverse effects of the prevailing age profile of bulk tonnage, especially in the tanker sector. A large part of this fleet was 15 years old and over. In this respect, the Group noted the need to replace a significant part of this tonnage within the next five years, particularly since more stringent environment control measures had been implemented by a number of countries. The present unsatisfactory situation was aggravated by poor maintenance and resulting safety risks posed by the existing fleet. Similar considerations applied to dry bulk carriers where many vessels had been equally badly maintained and involved in a number of severe accidents recently.

8. With regard to the question of overcapacity, it was suggested that some reserve capacity of bulk carriers might be desirable in order to be able to respond to unexpected changes in the demand for such tonnage based on economic or political developments.

9. The Group noted the necessity of facilitating shipping documentation, increasing speed in the flow of documentation as well as facilitation of customs procedures.

10. With regard to port development, the Group pointed to the need to strengthen cooperation among ports of developing countries so as to increase the ports' efficiency through specialization. The Group also agreed that transhipment should be considered as a reasonable alternative to direct service.

11. Turning to the sub-chapter dealing with conference structures, some experts emphasized the usefulness of conferences in certain trades. However, the Group agreed that the role of conferences would have to be reconsidered, particularly with regard to price-setting mechanisms. Future cooperative arrangements among lines would have to be more flexible than traditional conferences and leave more commercial freedom to their members.

12. The question of participation in trade, including bulk trade, should focus on the ability to control transport rather than ship ownership. This could be achieved by gaining commercial control over cargoes and services through chartering and NVO-MTO operations. It was felt, though, that a minimum ownership position was essential in order to have market credibility. The Group was convinced that the two concepts of ownership and commercial control were not mutually exclusive but rather complementary.

13. With regard to future shipping policies, the Group underlined the need for progressive liberalization and for adhering to the principles of free and fair competition. Some experts felt that transitional measures would have to be agreed upon to ensure the ability of shipping enterprises in a number of developing countries to develop in a liberalized environment.

14. The Group noted that, in the past, some shippers' councils had been used to promote national fleets and to organize both the supply and demand sides of shipping. They suggested that the councils should re-think their role and concentrate on providing services to shippers. The Group noted that freight rate negotiations had lost their rationale in the European context, although in the context of developing countries, shippers' councils could still play a role in consultations with shipowners.

Recommendations

15. The Group agreed on a set of recommendations applicable at the national level and at the level of international organizations. These recommendations would apply to both liner and bulk trades.

Recommendations at the national level

1. Countries should adopt liberalization in shipping and move towards market-oriented shipping policies. These policies should apply to all countries.

2. The Group felt that there was no conflict between the two concepts of fleet development and commercial control. However, for those countries where fleet investment was not viable in the immediate future, they should adopt slot or space chartering agreements to gain commercial control over shipping operations.

3. State-owned shipping enterprises should be commercialized or privatized, or there could be joint ventures between the State and the private sector, in order to improve the efficiency of shipping services. Furthermore, there was a need to view national shipping enterprises as commercial ventures with minimal government intervention and more autonomy in decision-making.

4. Regional and inter-regional cooperation should be promoted in ship ownership and operation, and in port planning. Appropriate legislation and a regulatory framework should be available to support cooperation, for example joint ventures, consortia and slot charter agreements. UNCTAD should carry out a study of the possibilities which exist in cooperation arrangements.

5. Shippers' councils in developing countries should, where needed: assist shippers in negotiations with ocean carriers on all matters of concern to them; provide information to shippers on costs and conditions of transport; provide direct assistance to shippers, particularly to small- and medium-sized ones, regarding the shipment of particular consignments; represent the interests of the trading community *vis-à-vis* Governments in their formulation

and implementation of shipping and transport policy measures; undertake on a continuing basis research into questions of importance for the protection of the interest of transport users, the effective application of relevant transport policy and the economic conditions of using different transport routes and modes.

6. Governments should establish an adequate legal framework to facilitate trade, the provision of efficient shipping services and the introduction of multimodal transport operations.

Recommendations to international organizations

7. UNCTAD should carry out a comparative study of national shipping policies being undertaken in different countries on liberalization, privatization, etc., and evaluate them.

8. UNCTAD should carry out a study on national arrangements for fostering a competitive international shipping industry.

9. UNCTAD should carry out a study on factors which determine the success or failure of developing countries in shipping. Such a study may take into account the wider or macro-economic impacts of shipping in developing countries.

10. UNCTAD should promote manpower development in developing countries taking into account new policy measures and the new roles being suggested for shipping lines, shippers' councils and other shipping enterprises.

11. UNCTAD should provide assistance to developing countries, upon request, in policy formulation at the national level.

12. UNCTAD should review and update the recommendations for economic cooperation among developing countries in the field of shipping, ports and multimodal transport.

13. UNCTAD should, based on the document submitted to the Group, carry out further in-depth analysis of the on-going structural and technological developments affecting shipping.

14. Multilateral financing institutions should consider assisting developing countries in ship financing.

Annex I

Expert Group on Shipping Policy
Geneva, 18 and 19 May 1992

PROVISIONAL AGENDA AND ORGANIZATION OF WORK

I. Provisional agenda

1. Election of Chairman.

2. Structural changes in the maritime sector and necessary measures to promote the participation of developing countries in world shipping.

3. Other business.

4. Adoption of the report of the group.

II. Organization of work

The meeting will open in the Palais des Nations, Geneva in room 10 on 18 May 1992 at 10 a.m.

The Group will have two working days to complete its business. It is suggested that morning meetings be held from 10.00 a.m. to 1.00 p.m. An afternoon meeting should be held from 2.30 p.m. to 6.00 p.m. on 18 May and from 2.30 p.m. to 4.00 p.m. on 19 May, the latter one to be followed by a meeting from 5.30 p.m. to 6.30 p.m. to adopt the report.

Annex II

Expert Group on Shipping Policy
Geneva, 18 and 19 May 1992

TERMS OF REFERENCE

In accordance with resolution 65 (XIV) of the Committee on Shipping the group will examine structural changes in the maritime sector and make proposals on measures necessary to promote the participation of developing countries in world shipping. The group will base its deliberations on a report on relevant issues submitted by the UNCTAD secretariat. The group will, in particular:

- analyse the structural changes that have affected the shipping industry, in particular liner shipping;

- analyse the reasons for increasing difficulties of developing countries' operators to provide competitive transport services;

- propose action to be taken at the international and national levels to reduce the technology gap between developed and developing countries' shipping industries and to restore the competitiveness of the latter.

Annex III

Expert Group on Shipping Policy
Palais des Nations, Geneva
18 and 19 May 1992

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